

# SUPREME COURT OF THE UNITED STATES.

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OCTOBER TERM, A. D. 1910.

No. 784.

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THE FAIR,  
Appellant,

VS.

KOHLER DIE & SPECIALTY COMPANY,  
Appellee.

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## BRIEF FOR APPELLEE.

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*May it please the Court:*

It is true, as counsel for appellant have stated, that appellant and appellee are corporations of Illinois and citizens of that State. It is likewise true that the bill of complaint in this case was predicated upon a patent of which it charged infringement because of the violation of the terms of a certain license, and that a decree was entered, to which we shall hereafter more particularly refer, granting an injunction against the defendant, and under these circumstances. we are unable to see why this is not a patent case, or, in other words, arising under the patent laws of the United States. However this may be, the first question for determination is by what judicial

machinery the case reached the Supreme Court of the United States?

**CASE NOT PROPERLY CERTIFIED TO SUPREME COURT.**

We will briefly outline the steps taken in the cause up to the appeal. Beginning with the amended bill of complaint, we find that it charged infringement of a patent, both generally and specifically. For instance, in paragraph 4 of the bill of complaint, printed on page 4 of the Record, it will be observed that there was a general charge of infringement by the defendant because it has, without license or permission, made, used or sold, and is now selling and threatens to continue to sell a large number of gas-heating devices made according to and containing the invention covered by the patent in violation and infringement of the rights secured by said patent. Again, the defendant is charged with specific infringement in selling the device of the patent at a price of \$1.25 each, when its license to sell had restricted it to a selling price of not less than \$1.50. To this bill the defendant entered a special appearance for the purpose of objecting to the jurisdiction, and then filed what it called a plea to the jurisdiction (printed on pages 9 and 10 of Record), in which it made two independent allegations, to wit: (1) That the complainant has a fixed price at which it sells its patented device to jobbers, and that every device sold by The Fair to its customers was purchased by a jobber from the complainant at the full price demanded from the jobber. (2) That the Circuit and Superior Courts of the State of Illinois have full jurisdiction of the questions arising in this suit. To this so-called plea to the jurisdiction the complainant interposed two objections, (1) that it was not properly a plea and should therefore be stricken from

the files, and (2) that assuming, for the sake of the argument, that it was a proper plea, it did not set forth such a defense as would defeat the action. Judge Kohlsaatt overruled the first objection, although he himself characterized the plea as in the nature of an answer, and then sustained the second objection overruling the plea to the jurisdiction and requiring defendant to answer. These two rulings will be found on page 11 of the Record. The latter of these two rulings provided:

"It is ordered that the said special plea be, and the same is hereby overruled for insufficiency, and the defendant is given ten days in which to file its answer."

Defendant did not then pray an appeal or petition to have the case certified to the Supreme Court, but simply waited until the ten days expired, and in fact for some months, and did nothing. Complainant therefore moved for a decree *pro confesso*, which was entered October 12, 1910. On the 8th of November, 1910, defendant prayed an appeal to the Supreme Court of the United States, and filed with the clerk of the Circuit Court a proposed certificate and petitioned the Circuit Judge to sign such certificate. This proposed certificate is printed at the bottom of page 14 and and first three-fourths of page 15 of the Record. The Circuit Judge, however, refused to sign this certificate, and in explanation of his declination entered the following opinion:

"The Court of Appeals of this circuit in *Victor Co. v. The Fair*, 123 F. R. 424, held that the subject-matter of the plea inserted in this cause only presented a question within the patent laws and covered by them. Such decision settled the law for this court. Following that decision the plea herein inserted was overruled. Under such circumstances I MUST REFUSE A FORMAL CERTIFICATE UPON THE QUESTION OF JURISDICTION. No proceedings did occur in this case, how-

ever, on the part of the defendant except the filing of the bill which the defendant claims is a plea to the jurisdiction. KOHLSAAT, C. J."

It will therefore be observed that the Circuit Judge has not certified the case to the Supreme Court, and on the contrary has declined to give such certificate. It is true that in his opinion he states that no proceedings did occur on the part of defendant except the filing of the plea to the jurisdiction, but this statement is manifestly a mistake as the transcript of the record shows, in that, as we have before stated, a decree *pro confesso* was granted October 12, 1910, after due notice to the defendant, and defendant appeared at that decree and opposed it as to the amount of costs, arguing that the docket fee should not be charged against it because it was not a final decree.

On this state of facts our first point, therefore, is that this appeal is not properly lodged with the Supreme Court of the United States, for the reason that the Circuit Judge has not certified the case up to the Supreme Court as is required by the statute, and appellant has not applied to the Supreme Court for certiorari ordering the case to be sent up. In this connection we call attention to a decision of the Supreme Court which seems precisely in point. In the case of *Maynard v. Hecht*, 151 U. S., 328, an attempt was made to take a writ of error to the Supreme Court from the decision of the Circuit Court to the effect that it had jurisdiction of the cause. The writ of error was allowed by the Circuit Court, but no certificate of question for decision was applied for or granted by the court. Upon this state of facts the Supreme Court said:

"But in any view the absence of the formal certificate cannot be helped out by resort to these papers (meaning the writ of error). The inquiry is



not whether we can ascertain the question sought to be presented, but whether we can exercise jurisdiction under the Statute, which *we cannot* if the certificate is an absolute prerequisite as *we hold it to be*. And upon that ground we dismiss the writ without discussing whether the question of jurisdiction indicated could properly be held to have been in issue, or whether, if so, the case would fall within the fifth section."

Likewise in the case of *Colvin v. Jacksonville*, 157 U. S., 368. In that case the statement of the case shows that the bill was dismissed by the Circuit Court December 4, 1894, for want of jurisdiction, and an appeal made and allowed to the Supreme Court, but after being docketed this appeal was dismissed April 1, 1895, because of the absence of a certificate of the Circuit Court in accordance with Section 5 of the Judiciary Act of March 30, 1891.

**NO CERTIFICATE OR APPEAL DURING THE TERM WHEN THE JUDGMENT AS TO JURISDICTION WAS RENDERED.**

Referring to the Record, page 11, near the bottom of the page, it will be found that on the 4th day of April, 1910, being one of the days of the December term, 1909, the judgment overruling the plea to the jurisdiction for insufficiency was entered. The petition for appeal was not filed until November 8, 1910, as appears at the bottom of page 13 of the Record. The refusal by the Circuit Judge to issue a formal certificate upon the question of jurisdiction was filed November 8, 1910, and this day it appears was one of the days of the regular July, 1910, term of said court, as may be ascertained by reference to the certificate of the clerk just below the middle of page 15 of the Record. In other words, neither the proposed certificate nor the order of the judge refusing to sign it, nor the actual petition for appeal, were filed until the 1910 term, although the judgment affirming the

jurisdiction was made in the 1909 term. Under these circumstances, we submit, the Supreme Court must dismiss the appeal under the doctrine of *Colvin v. Jacksonville*, 158 U. S., 457, where Chief Justice Fuller, speaking for the court, said:

“We are of opinion that where the jurisdiction of the court below is in issue and the case is certified to us for decision, the certificate must be granted during the term in which the judgment or decree is entered, by analogy to the statutory provisions on that subject which obtained in relation to certificates of division of opinion. . . .”

**APPEAL FROM DECREE PRO CONFESSO DOES NOT PROPERLY RAISE  
QUESTION OF JURISDICTION.**

We have adverted to the fact that when the Circuit Judge overruled a plea to the jurisdiction he instructed defendant to answer within ten days. We now submit that the proper course for defendant to have pursued was to at that time give notice of record that he “stood upon his plea” and ask the judge to modify his order overruling the plea to eliminate the instructions to answer over within ten days and to make the order a final judgment so that a petition might be at once made to certify the case to the Supreme Court on the question of jurisdiction. This counsel for defendant failed to do. He did not give notice that he stood upon his plea, and consequently the order was entered in the form to which we have adverted, and by which he was required to answer within ten days, and against this order no protest was made. No answer was made within ten days, and nothing further was done for months, and then defendant being in default in view of this order, motion was made for a decree *pro confesso*, which was granted. This decree is printed on page 12 and 13, Record. The orders of the decree are : (1) That the bill be taken as

confessed by the defendant. (2) That the patent be adjudged valid and owned by the complainant and that the defendant had infringed such patent. (3) That the complainant recover nominal damages and costs amounting to \$45.87 (which amount was contested by defendant). (4) That a perpetual injunction be granted against defendant.

Thereupon defendant filed a petition for appeal, in which petition it, amongst other things, stated that the defendant "*Hereby appeals from the said final decree of October 12, 1910, to the Supreme Court of the United States upon the said question of jurisdiction for the reasons specified in the assignment of errors this day filed herein; and it prays that this appeal may be allowed, that said question may be certified to the Supreme Court by the certificate filed herewith . . .*"

It is clear, therefore, that the appeal was taken from the final decree of October 12, 1910, and inasmuch as said final decree entered no order in regard to jurisdiction, we submit that the appeal from that decree is improper and can not be maintained in this court. The questions adjudicated by the decree *pro confesso* are mere questions of procedure and patent law, which are not appealable to the Supreme Court. The appeal was allowed, but the certificate was refused as we have before indicated, the allowance of the appeal being a mere formality. We contend that no appeal has ever been taken from the order of the Circuit Court overruling the plea to the jurisdiction for insufficiency, and in fact no such appeal could have been taken because defendant never gave notice that it stood upon such plea or asked that it be made final, but permitted the proceedings in the cause to continue until a decree was entered *pro confesso*, and then appealed improperly from such decree *pro confesso*, from which an appeal to the Supreme

Court is not permissible under the statute. No doubt it will be argued for defendant that under the authority of many decisions of this court an appeal could not be taken to the Supreme Court until a final judgment and decree was entered. This is true and the force of those authorities is not disputed, but we submit that doctrine gives no support to counsel for defendant in appealing from a decree *pro confesso*. We submit that the proper way to secure the final judgment from which an appeal might be taken to the Supreme Court in this case, was for counsel for defendant, at the time his plea to the jurisdiction was overruled for insufficiency, to have placed on record a statement that he desired to *stand upon his plea*, and that he therefore prayed the court to make its order final, so that it might be appealed from. The court would then, we submit, not have required him to answer within ten days, but would have at once made the order final, and at the request of counsel for defendant would have certified the case to the Supreme Court. It is quite familiar practice for a defendant who files a demurrer or plea, to announce (if such demurrer or plea is overruled), that he stands upon it, so that upon a determination of the question raised in the demurrer or plea, the whole case must rest. In the present case the effect of the plea was to assert that there had been no infringement of the patent, but a mere breach of contract, and that if this conclusion was correct, the Federal Court had no jurisdiction, because a mere breach of contract existing between citizens of the same state could be remedied by a suit in the state court. If the defendant was right in this contention that made an end of the case, and if he was wrong in this contention, that likewise made an end of the case, because his plea admitted that he had done some of the things complained of, and if these acts constituted a

mere breach of contract, and not an infringement of the patent, there was an end to the suit before the Federal Court. And if such acts constituted an infringement of the patent rather than or as well as a breach of contract, then, defendant having confessed the acts by his plea, that made an end of the case and the complainant was immediately entitled to the relief prayed. If, therefore, under these circumstances, the defendant stood upon his plea, the case was at an end so far as the merits was concerned, unless an appeal was taken, and the appeal should have been taken at once from the final judgment overruling the plea. The formal decree *pro confesso* would, of course, necessarily have followed such a final judgment overruling the plea, but that would have been as pure a formality as the issuing of the execution for costs, or any other such matter, for the merits of the case would have been settled by the entry of the final order overruling the plea upon which defendant stood. Instead, counsel for defendant did not stand upon its plea, nor appeal from the order overruling the plea. He allowed the court to enter an order requiring him to answer within ten days, and having failed to comply with this order, judgment *pro confesso* was taken for that reason, and then defendant appealed in express terms from the decree *pro confesso*, which, as we have before stated, made no order regarding jurisdiction. This appeal, therefore, necessarily put in issue the correctness of the findings in the decree which related to the validity of the patent, the infringement of the patent, the propriety of issuing the injunction, etc., and consequently raised other questions than those involving jurisdiction, notwithstanding the assertion that jurisdiction only was involved. Indeed, in the motion to advance the hearing before the Supreme

Court made by counsel for defendant, there occurs the following significant statement:

"This record (less than twenty pages) not only presents the rights of the parties to this suit, but it also involves the jurisdiction of the lower Federal courts; the powers of all patentees; the rights of purchasers from them; and the rights of the purchasing public. This question has arisen many times in the lower Federal tribunals, and, it is self-evident, needs an authoritative decision from this court which will finally settle the rights of the parties under the patent statutes."

This language, in the brief of counsel for defendant, plainly shows that the question of jurisdiction is only a side issue, and what counsel for defendant is really seeking is an authoritative decision from this court which will finally settle the rights of the parties under the patent statutes. This will be perfectly understood, when the preceding part of the motion is read in connection with it, to mean that the question before the Supreme Court which it is desired should be authoritatively settled is the power of the patentee to limit the use of his patented article by placing a placard upon the same fixing the price at which it may be sold. This is no question of jurisdiction, but instead, an interpretation of the patent statutes regarding the extent of the exclusive right, and how a patentee may qualify it, but as to this, we will argue more at length in the next chapter, our purpose at present being merely to show by the printed motion to advance, filed by defendant, that the question of jurisdiction is not the real question admitted to be presented, and that, on the contrary, an effort is being made to determine the rights of patentees and of the purchasing public under the statutes.

As a matter of proper procedure following the doctrine of *U. S. v. Jahn*, 155 U. S., 109, if the defendant desired considered these questions of interpretation of the pat-

ent laws, he should have appealed the entire case to the Court of Appeals and then asked the Court of Appeals to suspend decision on the merits and to certify the question of jurisdiction up to the Supreme Court for determination. As the matter now stands defendant has no appeal, properly speaking, from the judgment affirming jurisdiction, but took his appeal from the decree *pro confesso* which related to the merits, and then declared that it related to the question of jurisdiction; but this declaration manifestly did not evidence his real intention, as is shown by the paragraph quoted from the motion to advance, filed in the Supreme Court in behalf of defendant and printed on the second page thereof.

**DEFENDANT HAS VIOLATED SPECIAL LICENSE GRANTED BY COM-  
PLAINANT AND THEREBY INFRINGED THE PATENT.**

Having called the attention of the court to certain preliminary objections to the manner in which this case has reached the Supreme Court, which in our judgment shows that the procedure employed by defendant is irregular and not in accordance with the restrictions of the statute, we next pass to a consideration of what may be termed the merits of the appeal or the questions sought to be appealed. In order to properly understand this it will be necessary to refer briefly to the pleadings, comprising the bill of complaint and special plea.

The bill of complaint filed by Kohler Die & Specialty Company recited the patent to Victor Kost, No. 822,374, the exclusive rights under which were transferred to the Kohler Die & Specialty Company, the complainant herein. The fourth paragraph of the bill of complaint alleges general infringement by the defendant and threats to continue to infringe. The fifth paragraph of the bill recites that the complainant has a large and

profitable business in the manufacture and sale of devices under this patent and selling to dealers the gas-heating devices embraced in such patent, and in order to maintain that trade complainant sells the devices in each case under a special restriction that it shall not be sold for less price than \$1.50, which is "a condition of such sale," and that as a further method of enforcing the knowledge of the restrictions of the license a label is affixed to the box or package containing each device which reads as follows:

"SPECIAL NOTICE. This Gas Jet Heater is licensed by us for sale and use only when sold to the public at a price not less than \$1.50. No license is granted to sell it to the public at a less price than \$1.50, or to use it if sold at less than such price. Any sale in violation of this condition, or its use when so sold, will constitute an infringement of our United States Letters Patent No. 822,374 (other patents pending), under which this gas-jet heater is constructed, and all parties so selling or using it contrary to the terms of this license will be treated as infringers of said patent and will render themselves liable to an injunction and damages. The license to sell is good only so long as this label remains upon the package, and erasures or removal of this label will be construed as a cancellation of the license. A purchase is an acceptance of these conditions. All rights revert to the undersigned in the event of any violation. KOHLER DIE & SPECIALTY Co., Sole Licensee."

This same special notice will be found printed in the bill of complaint, page 5, Record. Paragraph 6 of the bill of complaint shows that defendant was specially notified of the restrictions of this license and of all the provisions contained therein and warned that they would be insisted upon, and that yet the defendant in the capacity of a dealer or merchant obtained a stock of such patented devices, each bearing the special notice plainly displayed upon it and then proceeded to violate the license



by selling these devices for a sum materially less than \$1.50 each, to-wit, at a price of \$1.25 each and less. Paragraph 8 of the bill provides that the complainant has a large number of other dealers as his customers who have generally acquiesced in the conditions and restrictions of the license as before stated, and that the violation of this license by the defendant tends to induce other dealers to violate the license and is thereby "actually materially interfering with the lawful sale of said gas heating devices by your orator to your orator's said customers and prospective customers, and to the trade generally, and has thereby diverted from your orator large gains and profits." Paragraph 9 provides that the complainant will suffer great and irreparable damage and injury to its business and good will by such a course of procedure by defendant. Paragraph 10 provides that the defendant is still continuing to thus unlawfully sell such devices. Paragraph 11 asks for the usual relief by injunction and accounting. To this the defendant, The Fair, filed a plea in which it stated:

"The said complainant and The Fair are each and both citizens of the State of Illinois; that The Fair has never manufactured any of the devices referred to in the amended bill of complaint herein; that the complainant has fixed a price at which it would sell the devices referred to in the amended bill of complaint to jobbers; that each and every such which has been sold or offered for sale by The Fair was purchased by a jobber from the complainant; that the jobber paid to the complainant the full price demanded for each and every of such articles and resold them to The Fair and that The Fair has never sold or offered for sale any of such devices except those which the complainant has received the full price demanded for them; that The Fair has never used any of the devices referred to in the amended bill of complaint, except those purchased as aforesaid. . . ."

And then further set forth that the Circuit Courts of Illinois have jurisdiction of questions between citizens of the State touching matters such as is set forth in the bill of complaint. Complainant moved to strike the plea from the files on the ground that it was not a proper plea, which motion was overruled and then the plea was set down for argument and the plea was overruled by Judge Kohlsaas as insufficient, as we have before stated. Plainly the plea was not a proper plea, because it was not confined to a single point of defense. It was more in the nature of an answer, as Judge Kohlsaas orally observed at the hearing. Aside, however, from this question of form, we turn to the facts as presented by this bill of complaint and the plea referred to. In the first place, it is to be noted that while the plea argues that The Fair never manufactured or sold or used any device of this kind except those which had been purchased by a jobber or dealer from the complainant at the full price demanded by the complainant from the jobber, yet it does not deny the specific allegations of paragraphs 4, 5, 6 and 7 of said bill of complaint. Paragraph 4 is a charge of general infringement of the patent by the defendant, and as we understand it the plea does not deny this except insofar as it says that any devices which it has sold or offered for sale were purchased originally from complainant at the price demanded by complainant. This, we contend, is not a sufficient denial of the allegations of infringement. There are a great many restrictions which a patentee may place upon articles which he licenses parties to use, other than the mere limitation as to price. For instance, it is well settled that the owner of a patent may grant a person a shop-right merely; that is, a right to manufacture the device only in his own shop, and that this limitation is binding. We need not cite cases to support such a universally recognized re-

striction upon the use of a patented right. The owner of a patent may likewise license a party to use the patented device only on his own premises. Such, for example, is the license by the Bell Telephone Company for the use of its telephones. In such case the instrument does not become the absolute property of the user, but only the right to use it under certain conditions specified. Now the general charge of infringement in paragraph 4 of this bill of complaint has not been denied specifically or in substance by the plea. It might be very true that all the devices the defendant has sold were bought from a jobber and that the jobber paid to the complainant the price demanded, but that the property right in these devices remained in the complainant and that they were subject to similar conditions for use, etc., as are the telephones of the Bell Telephone Company, or were sold with the restrictions upon them that they should only be used to communicate between the various departments of The Fair and that any other use would be a violation of the license, outside the license and constitute an infringement. We merely cite these instances of possible restrictions of other natures to indicate that there has been no formal denial in the plea filed by the defendant in this general charge of infringement contained in paragraph 4 of the bill of complaint. It is true there is a special denial that The Fair has always paid the full price demanded, but so do purchasers of shop-rights and purchasers of Bell telephones, etc. There has been no attempt to deny the general charge of infringement contained in this paragraph, and the mere specific statement that The Fair has paid the price demanded by the jobbers has not the effect, we submit, of a general denial of infringement, because there might be a variety of other conditions imposed under which the property rights never passed to The Fair, and its sale or use by The Fair

outside of those restrictions constitute a violation of the right conveyed just as completely as would the manufacture outside of a shop by a party to whom only a shop-right was given, or the sale of a telephone by a party who was only authorized to use it under certain conditions. We submit, therefore, that this fourth paragraph not having been denied in any effective way in the plea, affords plain grounds for the jurisdiction of the Federal Court and their decree *pro confesso* was therefore properly granted and cannot be set aside by the allegations of the plea, asserting merely that The Fair and the jobbers through whom The Fair purchased have paid the full price demanded by the owners of the patent for the privileges which it extended to them whatever those privileges might be, for such privileges were restricted and might, as a matter of fact under this clause of the bill of complaint, be restricted in a variety of ways. Section 4884 of the Revised Statutes provides that every patent shall contain "A grant to the patentee, his heirs or assigns, for the term of seventeen years, of the exclusive right to *make, use, and vend* the invention or discovery throughout the United States and the territories thereof. . . ." It has been frequently decided that this grant is disjunctive; that is to say, the patentee has the exclusive right to use, and may assign that right; and that the patentee has the exclusive right to vend, and may assign that right. In other words, these three distinct rights are separate and distinct and may be employed or disposed of independently. Manifestly, therefore, they are coextensive. That is to say, if a patentee has the right to grant a limited right to make, for instance, only in the shop of a maker, which is ordinarily termed a shop-right, and which has been recognized as a proper separate grant from the time the first patent system began, then he likewise must have the privilege

of granting what may be termed a shop or office use, such as the telephone company grants; and he has equally the capacity under this statute to grant the right to vend under conditions or restrictions comparable and equivalent to the restrictions of the maker in the case of a shop-right or the user in the instance of the telephone. How can a court say that Congress, who authorized each of these rights, meant to create an inherent possibility of limitation of the right to make and the right to use, but not of the right to vend? What authority is there for interpreting this statute in such an inconsistent manner when applied to the three distinct rights conveyed under it?

Does the Constitution hint at such a thing when it gives Congress the right to give to inventors and discoverers the exclusive rights to their inventions for limited periods? Can it be said that the statute carrying out this principle of the Constitution is to be limited in a manner not expressed and plainly not contemplated when it was framed so as to make no distinction in the capacity of restriction which the patentee may apply to one form of grant or the other? We think not.

But, says counsel for appellant, complainant's remedy is for breach of contract, and not by a suit for infringement. Is the remedy for violation of a shop-right license a suit on a contract? No, it is a matter of public knowledge that if a patentee grants a shop-right and the licensee uses elsewhere than in the shop, he is liable for infringement. Why? Because the use outside of the shop is without right or license! In the same manner we submit the complainant granted the defendant only a special license; that is, a license to sell the device at a price not less than \$1.50 each, and when a sale was made at a less price it certainly cannot be said to be a sale by permission, and therefore it was a sale outside the grant,

and infringement of the patent. The complainant herein had the exclusive right under the patent. It never gave up that right. The entire right, even for a single article, was not disposed of, but a partial right was conveyed. This partial right was to sell under certain restrictions as to price. The purchaser therefore does not get complete title to the article, but only a title subject to certain limitations. The complete right belongs to complainant, and it does not choose to dispose of it absolutely. It is a part of the exclusive monopoly that complainant has the right not to sell it at all, or to fix the terms upon which it will sell it. Complainant gave notice directly and also by the label on the box, that any sale made in violation of these limitations imposed would be a sale outside of the patent rights which it granted, and therefore without the permission of the owner of the patent; consequently, such a sale would be an infringement of the patent. That is the only way the complainant company can realize a proper return for its patent privileges. If The Fair is permitted to sell to users for less than \$1.50 each, then, of course, the users will be educated to buy at that price, and that price only, and very soon they will not buy at any greater price. Consequently, all the other jobbers to whom complainant sells and who wish to comply with the conditions of the license, will be forced either to stop buying from complainant, or else violate the license, and shortly there will ensue a condition of chaos with reference to complainant's business. Many jobbers have not the means to compete with The Fair, and cannot afford to sell these articles at a less price than \$1.50. Some other jobbers do not care to undertake to sell at cost merely to make the article a leader, and beguile the public into the belief that all other articles are sold at a correspondingly reduced price. The complainant must protect all these jobbers, or else the bulk

of its business is gone, the trade in its device is demoralized, and it will get no adequate return for its patented device. Therefore, the complainant declares to all jobbers alike that it will not part with the entire and unrestricted title to the articles; that it will not make an outright sale, but will only grant a license to sell under certain restrictions, so as to protect its trade; that anyone who sells regardless of these restrictions sells without license or permission, and therefore is an infringer. It is not a question of contract, but a question as to the extent of the license given to sell under the patent. It is a question whether the owner of the exclusive rights under the patent may not only place restrictions upon the manufacture of the article, such, for instance, as confining the licensee to the manufacture in his shop; or limitations as to the use of the article, such, for instance, as the use of the man's own premises, as in the case of the telephone; or equivalent reservations as to the sale of the article. In one sense every grant under a patent is a contract. If a patentee grants another person the right to make, without granting him the right to use, which has many times been decided to be proper, that in a sense is a contract, for of course the authority to make such a grant must be coupled with the agreement to accept such a grant before it becomes completed, and therefore, there is a contract between the two persons; but it could hardly be urged that in such case, if the party who was given the right to make, and not the right to use, nevertheless, usurped the right to use, and therefore went beyond the franchise granted him, that a suit for infringement could not be maintained on the ground that it was a mere contract. The point is that it is under the patent, and by virtue of the patent and in accordance with the rights given by the patent, and therefore it is not a mere question of the



breach of contract when a party makes use of an invention, when he was only granted the right to make it, but the tort consists in his going outside of what he was granted and for this sort of a tort the statute gives the right to sue in a Federal court for injunction, as well as for damages. In the same way, the tort in the present instance consists in The Fair going outside of the grant, which was to sell devices only at a certain price, and the tort for which an injunction is asked is the selling below that price. It is that tort which is complained of. Mere damages is not an adequate remedy, as the bill fully sets forth. How is it possible to prove how much complainant's trade will be demoralized by this selling below the price? The only adequate remedy is by injunction and not for breach of contract, and it is this remedy by injunction which the statute gives in patent cases, and which is sought by the present bill of complaint.

The plea to the jurisdiction denies none of these facts. The bill of complaint in paragraph 8 makes special reference to the proposition that the complainant has a large number of customers who purchase the gas-heating device under the conditions of the selling restrictions referred to and that the violation and infringement of the complainant's rights by selling at this lower price tends to induce others to violate the restrictions and has materially interfered with the lawful sale of the gas-heating devices to the complainant's other customers. Paragraph 9 likewise expressly recites that unless this tort committed by the defendant is enjoined, the complainant will suffer great and irreparable damage and injury to its business and good will, for which no action at law would be adequate. There is nothing in the plea which denies these allegations and therefore they must be taken as proved. How then can it be urged



that a mere suit for breach of contract in the state court could give adequate remedy in such a case? We submit that it is plain that the loss to complainant's business by its demoralization in the manner indicated is totally incapable of redress by a suit for breach of contract to recover the difference between \$1.25 and \$1.50, or some other such loss as can be proved, as directly occasioned by the sale of the device The Fair at a price lower than the one at which it was licensed to sell.

It seems also evident that any determination of this question involves an interpretation of the patent statutes, and an enforcement of such statutes and that the state court could not properly do this either on a suit for breach of contract or otherwise. The principle underlying this question is one growing more and more important every day. It has been decided again and again by the courts of appeals. Are they not as competent to decide it as a state court when it is plainly based upon an interpretation of the patent statutes? As we have before observed, counsel for defendant in its printed motion to advance deliberately state that the question not only presents the rights of the parties to the suit and involves the jurisdiction of the Federal courts, but also "the powers of all patentees, the rights of purchasers from them, and the rights of the purchasing public." If this question involves the powers of patentees, the rights of purchasers from them and the rights of the purchasing public, how can it be a question of purely state jurisdiction? Counsel for defendant further says that the question is one which "it is self-evident needs an authoritative decision from this court, which will finally settle the rights of the parties under the patent statutes." Mark the words "*the rights of parties under the patent statutes*"! And yet counsel gravely argue that the circuit judge had no jurisdiction

to determine this far-reaching question arising, as they admit, under the patent statutes, but that it should be relegated to the state court for a decision on an action for a breach of contract! We submit that such reasoning is absurd. Counsel for defendant wants an authoritative decision from the Supreme Court, as they say, which will finally settle the rights of the parties under the patent statutes. And yet, notwithstanding this bold declaration, their whole appeal to this Supreme Court rests upon the proposition that the Federal courts have no jurisdiction to interpret these patent statutes, and that the whole matter should be settled in an action for a breach of contract in the state court! It is doubtless very true that the question *does* involve the power of all patentees, and *does* involve the rights of purchasers from them, and *does* involve the rights of the purchasing public, and *does* very much need an authoritative decision from the Supreme Court which will finally settle the rights of the parties under the patent statutes, as has been admitted on page 2 of the motion to advance filed by counsel for defendant. We should very much like to participate in the argument of such a question before the Supreme Court but we should fail in our duty to our client and in our duty to this court if, for the sake of such an opportunity, we neglected to show to the best of our ability that this appeal is not properly before the Supreme Court, and that the Circuit Court had absolute jurisdiction under the statute to consider the questions of the rights of the patentees, and the rights of the purchasing public under the patent statutes which are here brought in question. The suggestion made on this appeal and made on this motion to advance, that this appeal involves only a question of jurisdiction is a mere pretense and counsel for defendant have virtually admitted this when they, in their motion to advance, state

that it involves the powers of all patentees, *etcetera*, and needs an authoritative determination of this court to settle the rights of parties under the patent statutes. Section 6 of the Act of March 3, 1891, establishing the Circuit Courts of Appeals of the United States provides:

"Sec. 6. That the Circuit Courts of Appeals established by this Act shall exercise appellate jurisdiction to review by appeal or by writ of error final decision in the District Court and the existing Circuit Courts in all cases other than those provided for in the preceding section of this Act, unless otherwise provided by law, and the judgments or decrees of the Circuit Courts of Appeals *shall be final* in all cases in which the jurisdiction is dependent entirely upon the opposite parties to the suit or controversy, being aliens and citizens of the United States or citizens of different states; also *in all cases arising under the patent laws . . .*"

Now, as we have seen, counsel for the defendant admit that this case requires an authoritative decision from this court which will finally settle the rights of the parties *under the patent statutes*, but the statute says that the decisions of the Court of Appeals shall be final in all cases arising under the patent laws. It is true that if counsel for defendant had appealed the entire case to the Court of Appeals the statute gives the Court of Appeals the right to certify the question of jurisdiction to the Supreme Court for determination, but this course counsel for the defendant declined to follow. It is also true that the statute states that it shall be competent for the Supreme Court to require by certiorari, or otherwise, any such case as is made final in the preceding section, to be certified to the Supreme Court for its review and determination. But counsel has not asked the Supreme Court for a certiorari for this purpose. The case is presented, as we have before observed, without a certificate from either the circuit

judge or the Circuit Court of Appeals or an application to the Supreme Court for a writ of certiorari. In short, it is simply bodily taken by the four corners, and to use a homely expression, "pitched" into the Supreme Court without warrant of law or authority of any court. We do not believe that the Supreme Court will wish to warrant or endorse any such irregular mode of procedure. It might be productive of very evil consequences. We do not mean that the Supreme Court would suffer very much, but litigants would suffer; for if such an irregular attempt succeeded, an innumerable number of similar attempts would be made throughout the United States and much hardship and expense would be unjustifiably incurred by defending litigants before the practice could be stopped, as it undoubtedly would soon be stopped by the Supreme Court.

We submit, therefore, that the special plea to the jurisdiction filed in this case fails to reach the serious charges of the bill of complaint upon which are predicated the prayer for injunction and other relief under the patent statutes. Assuming, of course, that the facts stated in the special plea to the jurisdiction are true we must likewise assume that the facts in the bill of complaint not denied by such plea are true and those facts show clearly an infringement under the patent statutes and a damage to complainant's business and good will for which a remedy by action of law would be entirely inadequate and which would be irreparable unless restrained by injunction as authorized under the patent statutes when a patent is infringed or violated. We have thus far discussed this question on principle and apart from specific reference to decisions, for while there are many decisions of the Circuit Courts and of the Circuit Courts of Appeals sustaining our position there has been thus far no authoritative decision by the

Supreme Court in which this point was directly involved and we therefore thought this court would be more interested in a preliminary discussion of the statute and the general principles of law applicable to the same.

**AUTHORITIES SUSTAIN VALIDITY OF SPECIAL LICENSE TO SELL AT  
A RESTRICTED PRICE.**

We will now, however, turn to a consideration of the authorities.

The two cases upon which counsel for appellant seems to principally rely are the copyright cases of *Bobbs-Merrill Co. v. Straus*, 210 U. S., 339 and *Scribner v. Straus*, 210 U. S., 352. We, however, do not think it will be necessary for us to dwell upon these cases at any considerable length in view of the language of the Supreme Court in the first-mentioned of these cases, in which it is said, at the bottom of page 345:

“We may say in passing, disclaiming any intention to indicate our views as to what would be the rights of parties in circumstances similar to the present case under the patent laws, that there are differences between the patent and copyright statutes in the extent of the protection granted by them. This was recognized by Judge Lurton who wrote a leading case on the subject in the Federal Courts (the Button Fastener case, 77 Fed. Rep. 288) for he said in the subsequent case of *Park & Sons v. Hartman*, 153 Fed. Rep. 24, ‘there are such wide differences between the right of multiplying and vending copies of a production protected by the copyright statute and the rights secured to an inventor under the patent statutes, that the cases which relate to the one subject are not altogether controlling as to the other.’”

We may remark, however, that the notice to the purchasers which was given in these copyright cases was very different from that given in the present suit and in fact as we shall contend embodied a difference in prin-

ciple rather than a mere verbal difference. In fact, in the copyright case there was merely a special agreement not to sell books at less than the retail price fixed by the publishers and not to sell books to any dealer who cuts prices. The new publisher was required to execute this contract before deliveries were made. This agreement will be found published in the report of the opinion at page 354, 210 U. S. In fact, the cases turned upon the proposition that there was nothing in any of the notices tending to diminish or restrict the title but on the contrary a complete title to the book was given and then a special contract made by the publisher that it would not be sold at less than a given price. In this connection we call attention to the last paragraph, page 354, 210 U. S., which we quote from the opinion in the second case as follows:

"Upon the theory that Macy & Co. had notice of these agreements it was sought to hold them as copyright infringers. Both the Circuit Court (139 Fed. Rep. 193) and the Court of Appeals (147 Fed. Rep. 28) held that there was nothing in any of the notices of a claim of right or reservation under the copyright law, and held that the question was one of the right of the complainants to relief in a court of equity by virtue of their rights, independent of statutory copyright, in view of the alleged conditional sale embodied in the notice as to the copyrighted book."

The Supreme Court affirmed this view and also held that the allegations of the bill as to contributory infringement by inducing dealers to deliver books at retail at less than the prices fixed by the complainants was not satisfactorily proved. Manifestly therefore these copyright cases, aside from coming under a separate statute differ materially as to the facts from the present case, and indeed upon the facts upon which the copyright cases turned, as we have just shown. In the pres-

ent suit there was a *special reservation of rights under the patent law*. It was distinctly asserted that a complete sale was not made but that certain rights were reserved and that any violation of these reserved rights would constitute an infringement under the statute. We quote again from the special notice in the present case in proof of this contention, as follows :

“This gas jet heater is licensed by us for sale and use only when sold to the public at a price not less than \$1.50. No license is granted to sell it to the public at a less price than \$1.50, or to use it if sold at less than such price. Any sale in violation of this condition, or its use when so sold, will constitute an infringement of our United States Letters Patent.”

Thus it will be seen that in the present suit instead of making a complete and unrestricted sale the complainant distinctly reserved rights under his patent and declared that the violation of any of these reserved rights would be an infringement of his patent. This, therefore, clearly distinguishes the present case from the copyright cases where the court held “there was nothing in any of the notices of a claim of right or reservation under the copyright law.”

We submit there is a clear difference in spirit as well as in verbiage between the two notices. In the copyright cases the license to publish the books was granted so as to divest the licensor absolutely of all title not only to the book but to publish and sell the book under the copyright without any reservation or restriction as to the right of the owner of the copyright. Then a special contract was made with the publisher that he should not sell at less than a certain price. As the court very properly says, this contract was not by virtue of the copyright statute but made under the common law. There could be no violation of the copyright if the books were sold at a



less price than agreed upon but merely a breach of the contract. In the present suit, however, the licensor predicated his restriction not upon any contract but upon the nature of the grant, for he distinctly states that no license is given to sell the device at less than \$1.50 and hence from the nature of the transfer if the device was sold at less than \$1.50 it was sold in violation of the license granted under the patent because no sale could be made under this license at less than that price. In other words, the licensor did not rely upon a special contract to bind the parties *but refused to give them a license to go beyond a certain point*. He could do this because he had the exclusive rights given him by the statute and he could carve this right as he saw fit. He might just as well have said: "I hereby deliver to you one dozen gas-heating devices which are protected by a patent but I only grant you a license to use them as constructed and I grant you no license to change the construction materially for I know if you do that will injure the operation and thereby hurt my trade and I consequently will not grant a full license but only a license with this restriction and any violation of this restriction will terminate the license, for the license is only granted so long as you use these devices in the manner stated and therefore any change will be in violation of the patent because then you will be using it after the license has been terminated." And it is just as if he also said: "I grant or license you to make these devices in your shop and I distinctly state in this license that no license is granted to make these devices elsewhere than in your shop and that the making of the same elsewhere will be a violation of this license and consequently an infringement." In other words, a patentee, we submit, when he makes an assignment or a grant or a license under his patent may make limitations or restrictions which are not in the



nature of a contract but a reservation in the title, a violation of which will terminate the grant, assignment or license and cause all additional acts to be infringements. He may do this, we submit, whether he is granting a right to make, as in the case of shop-right, which has been recognized for ages, or whether he is granting the right to use, or whether he is granting the right to sell, and all three of these rights we submit stand on the same basis, are coextensive and no difference is made between them under the statute. It would be a different proposition, however, if the patentee granted an unrestricted license to make and afterwards entered into a special contract with the licensee that he should not make in any other place than in his shop. If this separate contract were violated the remedy would not be for infringement but for breach of contract. In the same way special contracts might be made as to sale, and as to use and their violation might justify a suit for breach of contract. But this suit does not involve any such state of facts. No special contract was made but *instead a reservation or restriction in the license itself as a part of the grant* was made, and notice given that this would be insisted upon and that the party could not proceed further than the grant extended without violating the patent rights; or in other words, a distinct reservation in the grant was made. This difference, we submit, clearly distinguishes in principle the case at bar from the copyright cases, and distinguishes the case at bar from any other patent cases where no reservation in the grant was made.

We submit, therefore, that the facts present in the copyright cases are so widely different from the facts present in the case at bar, that, aside from other considerations, they should have no weight in relation to the present case.

Appellant next contends that in the case of *Keeler v. Standard Folding Bed Co.*, 157 U. S., 659, the question here presented was practically settled, and that nothing in the subsequent decisions of this court has in any manner modified or restricted the force and effect thereof. We will, therefore, now consider this decision. When, however, we come to examine the facts in this folding bed case, we find nothing like the facts in the case at bar.

The facts stated in the opinion are that the complainants were assignees for the State of Massachusetts of a certain patent for folding bed and that the Welsh Folding Bed Company owned the patent rights for the State of Michigan, and that the defendants purchased a carload of said beds from the Welsh Folding Bed Company at Grand Rapids, Mich., and afterwards sold them in Boston. The court below held that the owner of the patent rights for the State of Massachusetts could maintain a suit against the defendants for selling in Massachusetts, although they bought from a licensed dealer in Michigan. On this state of facts, the Supreme Court said:

“Upon the doctrine of these cases we think it follows that one who buys patented articles of manufacture from one authorized to sell them becomes possessed of an absolute property in such articles, unrestricted in time or place. Whether a patentee may at any time himself and his assignees by special contracts brought home to the purchasers is not a question before us, and upon which we express no opinion. It is, however, obvious that such question would arise as a question of contract and not as one under the inherent meaning and effect of the patent laws.”

It is obvious that this is quite a different question from the one now before the court. The vendee in Michigan was given the full right and power to sell to anyone in the State of Michigan. No limitation or restriction was

placed upon him by the terms of the grant or license. No limitation or restriction was put into his grant that he was not empowered to sell to some one in Michigan who might sell in some other state. He might under his grant sell to anyone in Michigan, no matter where that person intended to sell. The person who bought from him did not have any notice that having bought from a party duly authorized to sell under the patent he was restricted as to the place in which he should sell. In short, there was no reservation of this character in the license or grant. The Supreme Court did not pass upon the question as to what would be their view of the matter if the grantee for the State of Michigan had imposed upon his grant the limitation that the articles should not be sold elsewhere than in Michigan, and that he should notify anyone to whom he sold that that was a condition of the grant and must be observed or there would be a violation of the patent. The Supreme Court plainly states that the question whether the patentee might protect himself by a special contract brought home to the purchasers was not a question before them and was one upon which they expressed no opinion; and it is therefore still more obvious that they did not have before them and expressed no opinion upon the much more delicate question as to whether a limitation imposed in the grant that the Michigan vendor could not sell to anyone for sale outside of the State and must give notice to any purchaser that this was a limitation imposed upon his right either directly or by label or placard, would not be effective in maintaining the exclusiveness of that right for other assignees in the other States. The correctness of the reasoning in the folding bed case is plainly apparent, both from the side of the Michigan owner and of the Boston purchaser. In the first place, the Michigan owner had an unrestricted right of selling to anybody in the State of Michigan.

That is what he thought he was buying and that what he paid for. To say that he would have to inquire from every purchaser in the State of Michigan what the latter was going to do with the beds and if he intended to sell them elsewhere to refuse to deliver them to him would be to say that he must deny himself of a considerable portion of the sales that he expected to make when he bought the rights for Michigan, and that he must deprive himself of the profits which he might otherwise make by a sale in his own territory, although at the time he bought from the patentee there was no restriction as to where the ultimate purchaser should sell them. Manifestly, therefore, such an interpretation of the Michigan grantee's right would be very unfair and unjust to him. Again, it would be intolerable in connection with the Boston purchasers. How were they to know that the party who sold to them had not the right to sell? There does not appear to have been any notice by placard or otherwise affixed to the beds and there could not have been such a notice because there was no such condition in the grant. It follows, therefore, as a matter of course that the Boston purchasers could not be tortfeasors under these circumstances. In either aspect of the case, therefore, we submit the Supreme Court must in equity have decided as they did in this folding bed case, but it is quite a different state of facts in the case at hand. Here the man who bought the gas-heating devices bought them under a license, which expressly stated that they should be sold to the public for not less than \$1.50, and there was no license granted to sell them at any other price, and that every article should have a placard with it to this effect. And that any sale in violation of this restriction would be a sale outside of the grant or license and therefore an infringement of the patent. No one was injured by such a license. The jobber who bought

from the complainant, now appellee, knew just what he was buying and under what restrictions and paid accordingly. The retailer, the present appellant, had written notice that it was buying under these restrictions and paid proportionally for this lessened title. The placard also gave a similar notice. Naturally, neither the vendor, the jobber, nor the retailer or the purchaser was defrauded of a single cent. Each understood perfectly what were the conditions of this grant and did not have to accept these conditions or restrictions or limitations if not so disposed. No one was imposed upon, no one gave a price for one thing and found he had in fact received another. The only fraud in the matter is on the other side of the case. Appellant, defendant in the court below, knowing that it had no right or license to sell these articles for less than \$1.50 and that to do so would be a tort because outside of the license or grant, deliberately and with its eyes open committed this tort and now seeks the favor of the court on a purely technical plea to the jurisdiction. The equities were all in favor of the defendant in the folding bed case. The equities are all against the defendant-appellant in the present case. The folding bed case was practically in line with the series of decisions by the same court, such as *Wilson v. Rousseau*, 4 How., 646; *Bloomer v. McQuewan*, 14 How., 539; *Mitchell v. Hawley*, 16 Wall., 544; *Adams v. Burke*, 17 Wall., 453; *Boesch v. Graff*, 133 U. S., 697, and *Hobbie v. Jennison*, 149 U. S., 355. We submit that neither the folding bed case nor any of the cases which it affirmed have any bearing on the present suit, for the reasons before stated.

Indeed, if the Supreme Court should adopt a contrary view it would seriously embarrass all patentees with moderate means and force patentees to sell their patents to rich corporations. The patentee who has an article

adapted for general use and therefore available for sale all over the United States, has not ordinarily the means to equip a selling organization for every State in the Union. He could not possibly find the money to pay salesmen to dispose of his device at a retail price in all the principal cities of the country. The modern method of doing business comes into play and helps him. He finds that he can sell to a large jobber in Chicago, and to another large jobber in St. Louis, and to another large jobber in New York, and to still another in Boston, and to still another in Denver, and to still another in New Orleans, and to still another in Minneapolis, and to still another in San Francisco. These jobbers in turn will sell to retail stores like The Fair, and the retail stores in turn will sell to the customers. But in order to dispose of his goods to these jobbers he must maintain the price of the article, and so as a part of the grant or license he makes a limitation that the price to the ultimate consumer must be \$1.50, and this fixed price is absolutely necessary to maintain his relations with these jobbers. If The Fair can sell for \$1.25 because it is a store with tens of thousands of other articles for sale and wishes to make this particular device a leader to induce purchasers to come to its store, and can afford to sacrifice all its profit on this particular article for that end, it will follow that the public will soon be educated into believing that \$1.25 is the proper price for this article and will not pay more. The other retail stores, therefore, of the city will have to make a similar price or else drop the article. The jobbers, therefore, who sell to them will consequently be forced to stop buying the article or sell it without profit, neither of which they will be willing to do, and consequently they will stop buying this article from complainant, and hence the latter will lose a large porportion of its market in Chicago. The same may be

true of New York, San Francisco, and other cities, and in a short time complainant's market will be so reduced that it will be getting far less than adequate consideration out of the invention, and in fact its business will be ruined. It is therefore not only important, but practically necessary for complainant to put a limitation upon the price at which the device shall be sold at retail, or else it will not be able to avail itself of the help of jobbers in the distribution of its goods, and this being so and its own capacity for distribution being small it will utterly fail to realize a fair and adequate reward for its invention. Of course, if the complainant was a multimillionaire and could organize a selling organization of its own for the whole United States like the big sewing machine companies, or the Deere Plow Company, or others, then there would be no necessity for it to resort to jobbers and it could sell direct to the public at \$1.50 and thus secure an adequate compensation for its patent rights, but as it is complainant must sell to jobbers for \$1.25 or thereabouts and limit the retail price to \$1.50 so as to allow a suitable profit for the jobber and make them all fare alike so that it may maintain their trade. Now why should this necessary modern machinery be penalized; what authority is there under the statute for penalizing it? If complainant has the right to sell to the retail trade direct at \$1.50, why can it not sell at this price through the modern machinery of jobbers and retail stores and allow such commission as will bring the price to \$1.50 and thus make use of the capital of the jobbers and retail stores in distributing its goods? If complainant may sell to a jobber with the express limitation in its license to such jobber that he shall not sell the articles for less than \$1.50, why can it not for the purpose of assisting in the convenient distribution of the goods provide that if the jobber sell



to a retailer as his customer the retailer shall not sell for less than \$1.50 per device? What difference does it make to the public whether the patentee sells him the goods at \$1.50 or whether it passes through the hands of a jobber and retail store and is then sold to him for \$1.50? What injury is done to the public in such event? What principle of law is violated by the patentee making use of the modern machinery of business to distribute his goods and putting such limitations upon his license to sell as will insure every jobber having fair play and just treatment and thereby inducing them to buy goods of complainant? If the patentee has the privilege under his exclusive right to vend to fix the price if he is selling directly to the public, as we believe is universally conceded, and it costs such patentee 25 or 50 cents per article that he sells to the public at \$1.50, why is it that such patentee has not the right to make use of the jobber and retailer to distribute his goods and fix the price at which it shall be sold at retail so as to allow them such a commission as would serve to induce them to distribute the goods for him at the price desired? We ask again, what authority is there under the statute granting the patentee the exclusive right to make, vend and use, for the courts to admonish him that he must not fix the price at which his goods must be sold to the consumer because he chooses to adopt the modern convenience of the jobber and retail store who will utilize their own capital and distribute his goods for him for what practically amounts to a certain selling commission and which is not greater than would be his selling expense? We submit there is no reason in principle, and nothing in the spirit or letter of the statute to prohibit the patentee from availing himself in this manner of modern business methods in selling his goods. We submit that the patentee should be dealt with in a



liberal spirit in the interpretation of these laws, and should not be hampered in such a manner as to prevent him from using modern methods in the disposition of his goods. Who is injured by this method of procedure? Whose rights are taken away? What equities are violated? The ultimate purchaser is not injured, for the patentee originally fixed the price of the article at \$1.50, and if such purchaser had bought from the patentee direct he would have had to pay this amount. The jobber is not injured, for the patentee pays the jobber a reasonable commission to cover both his own cost of selling and the cost of the retailer. The retailer is not injured, because he bought the devices at a less price in order to give him this commission for selling it at \$1.50. Not only this, but the jobber and retailer when they bought these articles at a reduced price were granted the license under the patent to sell them only at \$1.50 and thus were fully advised of the limitations of the grant and need not have taken the articles with such limitations placed upon them if not desired. If The Fair, for instance, wishes to make a leader of some article desired by the public and thus induce purchasers to enter its store and perhaps buy other articles, let it choose some other article in demand, and not a patented article upon which a fixed price must be charged in order to preserve the business of the owner of the patent. The patentee has promised that this article shall be free from royalty at the end of seventeen years from the date of grant, and the Government in behalf of the public has promised that the patentee may fix this royalty within these seventeen years, and the patentee has found that under modern business methods and with the capital at its disposal the only practical way of reaching this result is to sell through jobbers and retailers and fix the price at which the device shall be retailed to the public, and

the statute is enacted to carry out these intentions of the parties. Why, then, should courts put an arbitrary limit upon the number of parties through which an article must pass, while the price fixed by the patentee may be maintained? Of course if such a thing should be attempted without adequate notice to the public or in such a manner that the public would not be protected, that would be a different matter, but such is not this case. The facts of this case show that not only the jobber but The Fair was notified in writing of the restrictions of the license as to price, and that the public was also safeguarded by a placard containing such license, and its restrictions placed upon the article. Under these circumstances it would seem that logically and legally the complainant has acted within its rights and The Fair is infringing these rights by deliberately with notice selling outside of the license, and consequently complainant is entitled to the injunction prayed for so as to prevent the irreparable damage which otherwise would result to its business.

We have now considered, discussed, and as we believe and submit, distinguished the three cases relied upon by the appellant from the case at bar. Neither of the three cases really touch the point at issue in this case for reasons which we have stated. Counsel for appellant seem to have entirely misunderstood these cases, and especially the Folding Bed case. Counsel for appellant on page 9 of their brief say:

“The vital question presented for decision in the Folding Bed case was: Did these territorial license contracts and the claimed violation thereof raise an issue under the patent laws, or one of breach of contract?”

This is a surprisingly erroneous conclusion. No such question was involved in that Folding Bed case. The question involved in that case was the well settled one

whether a grantee of an exclusive right to sell for one state, who was in no wise restricted by the terms of his grant so long as he sold in that state, could sell to parties in the state and then such parties could sell in some other state. This was the vital question in the Folding Bed case, and this only. The suggestion as to whether a patentee might protect himself by special contracts brought home to the purchasers was distinctly stated in the opinion to be not a question before the court. The further suggestion that such a question would arise as a question of contract and not as one under the inherent meaning and effect of the patent laws must necessarily therefore have been purely dictum, as was said by Judge Lowell in the *Edison Phonograph Co. v. Pike* case, 116 Fed. Rep., 863. The Supreme Court when it uttered this dictum did not have before it the slightest intimation of a case like the present one, where there was no special contract, but a limitation upon the license. They did not have presented to them the present case which is in a sense like the "Rule in Shelly's Case." Under certain conditions the courts held by the "Rule in Shelley's Case" that the word "heirs" in a grant were to be construed as words of *limitation* and *not of purchase*. So in this case, we suggest that the words used by the complainant in granting the license to sell are necessarily to be construed as words of limitation and not of purchase or contract. In other words, the words employed define the nature and extent of the grant and impose that definition as a limitation upon the grant; which is a very different matter from a special contract as to what the defendant might or might not do, which latter would not amount to a limitation upon the grant itself, but a deliberate agreement after the grant. And the Supreme Court in the later cases called the copyright cases, before referred to, had in their minds

this distinction between the limitation or reservation in the grant and the special contract after the grant when they used the following significant language:

“Both the Circuit Court and the Court of Appeals held that there was nothing in any of the notices of a claim of right or reservation under the copyright law.” (See *Scribner v. Straus*, 210 U. S. 354.)

And this is what we are contending for here, that there was a reservation or limitation in the notice, under the patent law. And the Supreme Court in the copyright cases seemed to plainly intimate that such a reservation or limitation might make a difference in the way they treated the case; and this was the later view of the Supreme Court, for the *Folding Bed* case was decided at an earlier date and the effect of a limitation or reservation in the grant, was not before the court in that case.

We have now, as above suggested, discussed all three cases from which appellant endeavors to take comfort, and have, we submit, shown that these cases are really not in point so far as the present question is concerned. The rest of appellant's brief is practically devoted to an attempted explanation of the uniform line of decisions against them in the various Courts of Appeals, in this country and has brief reference to the Supreme Court decision in *Bement v. National Harrow Co.*, which last mentioned case we will next discuss. This case is reported in 186 U. S., page 70. While the facts in this Harrow case are not, it is true, like those in the present case, because the Harrow case was based upon special contracts rather than upon limitations in the grant, yet even these contracts were held valid, and the language of the opinion in commenting upon the law applicable to the case is very instructive. We quote as follows:

“On looking through these licenses we have been

unable to find any conditions contained therein rendering the agreement void because of a violation of that act. . . . The provision in regard to the price at which the licensee would sell the article manufactured under the license is also an appropriate and reasonable condition. It tended to keep up the price of the implements manufactured and sold, but that was only recognizing the nature of the property dealt in, and providing for its value so far as possible. This the parties were legally entitled to do. The owner of a patented article can, of course, charge such price as he may choose, and the owner of a patent may assign it, or sell the right to manufacture, and *sell the article, upon the condition that the assignee shall charge a certain amount for such article.*"

The last sentence of the above quotation is particularly in point, for it distinctly recognizes the right of the owner of a patented article to sell the article upon the condition that the assignee shall charge a certain amount for such article, which is precisely in accord with the facts of the present case and the point for which we are contending. Under this language of the Supreme Court in the Harrow case, not only would the appellee in the present case have a right to sell the gas heaters at \$1.50, but he would also have the right to sell the article upon the condition that the assignee The Fair shall charge a certain amount for such article. It can certainly make no difference that modern methods of business have caused the appellee to interpose, between The Fair and itself, an intermediate party in the shape of a jobber, for the condition was rigorously insisted upon in each transfer by a written notice and by placard. Thus, therefore, the Harrow case entirely confirms our position. There is no doubt a difference between the Harrow case and the case at bar in this respect and that is the Harrow suit was brought on a contract in the state court and the present suit is brought for an in-

junction in the Federal Court, but nevertheless the Harrow case by reason of the principles underlying it eventually reached the Federal Court and the Supreme Court of the United States, and the principle was then laid down by this latter court that the owner of a patent may sell the right to manufacture and sell the article upon the condition that the assignee shall charge a certain amount for such article. In other words, the patentee not only fixes the price he shall charge for the article, but after he sells the article it does not become free for the assignee to do with as he chooses, for the Supreme Court says that in passing the title the patentee can fix the condition that the assignee shall charge a certain amount for such article. And if the patentee can impose upon the assignee the obligation to charge a certain price for the article there is no reason why he could not interpose a third party like the jobber for convenience of transacting his business and impose such condition upon both parties as has been done in the present case.

We submit, therefore, that the case of *Bement v. National Harrow Co.*, decided by this court, is plainly an authority sustaining our position in this case.

It is worthy of note, moreover, that *Bement v. National Harrow Co.*, cites with approval the decision of the Circuit Court of Appeals for the 6th Circuit in *Heaton-Peninsular Button-Fastener Co. v. Eureka Specialty Co.*, 77 F. R., 288. In this last mentioned case Judge Lurton delivered the opinion of the Court of Appeals and his views are exceedingly instructive in this connection. The facts of the case were that the owner of patents on a machine for applying fasteners to shoes sold the machines at cost to shoe manufacturers upon the following conditions of sale:

“This machine is sold and purchased to use only

with fasteners made by the Peninsular Novelty Co., to whom the title of said machine immediately reverts upon violation of this contract of sale."

In other words, this was a restricted sale, and while the restriction differed in its character from the restriction in the case at bar, it was nevertheless equally with the case at bar a plain limitation upon the license given with the machine. Furthermore, the complainant did not sell the machine directly to the user, but sold it through jobbers, and on this state of facts the court said:

"That the complainant sells the machine through jobbers, and not directly to those who buy for use, is immaterial, under the facts stated on the face of the bill. The jobber buys and sells subject to the restriction, and both have notice of the conditional character of the sale and of the restriction on the use."

It appears, therefore, that the Court of Appeals for the 6th Circuit entirely agree with our position that it is immaterial as to whether the restricted license passes directly to the ultimate purchaser or passes through an intermediary such as the jobber. The principle is the same in each case. Another one of our contentions in behalf of appellee is confirmed by this Heaton-Peninsular case and that is that the party who violates the restriction contained in the license is a tortfeasor and not merely a breaker of a contract, and therefore it is proper to sue him in the Federal Court for infringement, while it may be of course feasible to sue him if desired in the state courts for violation of the implied contract. On this point Judge Lurton, speaking for the Court of Appeals, says:

"The remedy of complainant may be a double one; for liability may rest either upon the broken contract or for the tortious use of the invention. Rob. Pat. Sec. 1225, 1250, and notes. If a patentee may lawfully make and sell machines embodying his in-



vention and restrict the use of the invention in respect of territory or time or business, or purposes to which it may be put, or material to be used in conjunction therewith, it would seem very obvious that the effect of the restrictions and limitations on the use would operate to prevent the machine from passing, as in the case of an unconditional sale, beyond the monopoly of the patent. The control *reserved* by the patentee as to the use of the machine has the effect of continuing it within the prohibition of the monopoly. The license defines the boundaries of a lawful use, and estops the licensor from the assertion of his monopoly contrary to its terms. On the other hand, a use prohibited by the license is a use in defiance of the monopoly reserved by the patentee, and necessarily an unlawful invasion of the rights secured to him by his patent. The license would be no defense to a suit for infringement by a use in excess of its terms. The patentee has the exclusive right of use, except in so far as he has parted with it by his license. The essence of the monopoly conferred by the grant of letters patent is the exclusive right to use the invention or discovery described in the patent. . . .

"If, then, the patentee has the exclusive right to the use of his invention or discovery, during the term of his patent, it would seem to follow that any use by another, unauthorized by the patentee, would be an infringement of his monopoly. If, therefore, he can find a purchaser for a machine subject only to certain specified uses, any violation of the privilege granted would be an infringement, for which the remedies granted patentees would be appropriate."

Here, then, is a distinct recognition of the principle which we are advocating to the effect that the party has a right to grant a restricted or special license and thereby conveys permission to make, vend, or use, as the case may be, only within the special license, and any making, using, or vending outside of the restrictions of that license is a use without permission, or in other words, an infringement of the patent.

Again, Judge Lurton expressing the opinion of the court, made use of the following apposite language (see page 300, 77 F. R.):

"The suggestion has been made that, although defendants may be guilty of infringement, complainant's remedy at law is adequate, and, under the circumstances of the case, equity ought not to accord to the patentee the equitable relief of injunction. As to this aspect of the case, it would seem clear that, if complainant has imposed a legal restriction upon the use of the inventions embodied in the structures made and sold by it, the remedy at law is wholly inadequate, and relief by injunction should be awarded upon the case stated in the bill. . . .

"An action at law for the character of continuing trespass alleged by complainant would be grossly inadequate to protect the patents from invasion. If the complainant has the right to reserve a control over the use in the manner stated in its bill, then its machines to the extent it has reserved such control, are within the monopoly of the patents. If its licenses do not infringe public policy, but are within the privileges awarded by the patents, then it must follow that the case presented should be accorded relief by injunction restraining the acts complained of. A court of equity has the power, independently of any other relief, to restrain the continuing infringement of a patent."

We submit that the Heaton-Peninsular Button case is most conclusive in its logic, correct in its application of the principles of law, and apposite in its citation of authorities in support of the position taken. It certainly confirms the position we as counsel for appellee have taken in regard to three propositions, to-wit:

1. That the patentee having the exclusive right may in making a grant under that right restrict the grant, whether that grant is a right to make, to vend, or to use.
2. That a violation of this restriction is not only an

implied breach of contract, but more particularly a violation of the monopoly and an infringement of the patent, because the violater is operating outside of the permission given under the patent.

3. It is immaterial whether this restricted license is given directly to the ultimate user or through the intermediary of a jobber, provided a label or placard is affixed to the article so that the ultimate user is made aware of the restriction.

And corollary to these propositions the court also sustains us in a fourth contention, that the true remedy is by bill in equity for infringement of the patent, although it may be possible that there might be a suit in the state courts on the implied contract. And the Court of Appeals in this Heaton-Peninsular Button-Fastener case in expressing the opinion as we have indicated it, were not unmindful of the general rule that a patentee who unconditionally makes a sale of a machine under his patent with no restriction upon its use thereby passes the machine out of the limit of the monopoly, as held in *Adams v. Burk*, 17 Wall., 453; *Mitchell v. Hawley*, 16 Wall., 544, and many other cases; but distinguishes this principle from a case where the owner of a patent has not granted an unrestricted monopoly, but has only granted a limited license such as was present in that case, and such as is present in the case now at bar.

The decision of the Supreme Court in *Cotton-Tie Co. v. Simmons*, 106 U. S., 89, is likewise quite useful in establishing the contention we make in behalf of appellee, that a patentee may by the terms of his license place limitations or restrictions upon it, and that a party who goes outside of these restrictions is an infringer. In this particular case the owner of patents for improvements in metallic cotton bale ties, which tie consisted essentially of a buckle and a band, sold the ties upon the

market, having the following words stamped upon them: "License to use once only." After the bands had been used and broken and sold as scrap, the defendant bought the pieces, fastened them together with additional material necessary and sold them to be again used for a similar purpose. The Supreme Court held that this was an infringement. The case, therefore, in principle is authority for the proposition that a licensor may make a special license permitting only restricted or limited sale or use, and that any one who sells or uses outside of this restriction or limitation is an infringer of the patent.

The argument of appellant to the effect that the Heaton-Peninsular Button-Fastener case is based upon the theory that the patentee when he parted with the possession of the machine did not get the price asked for it, and hence that it was never freed from the patent monopoly and thereby differentiates the facts from the case at bar, because they allege complainant when it sells a gas-jet heater gets all it asks and has no further interest in it, is a clearly fallacious argument. In the Heaton-Peninsular Button case the vendor just as fully received the price he asked for his machine as does the complainant in this case. The vendor, it is true, sold the machine at cost, but received a definite sum of money equivalent of that cost, and expected, of course, to get its profit on the sale of the fasteners. In the present case the vendor sells to the jobber at a definite price, but it would get a very inconsiderable part of its compensation if it sold to only this jobber, or to put it more strongly, sold only to this retailer, The Fair. The compensation for the patent privilege would be trifling under such conditions. The added compensation which the vendor is to get is by virtue of The Fair and the other sellers keeping the price at \$1.50, so that the vendor's market will not be prejudiced, and it may sell large quantities of these de-

vices to various jobbers at a small profit. It is entirely immaterial whether the vendor receives \$10,000 a year net royalty on these devices by making \$1.00 above the cost price on 1,000 of them, or by making 10 cents above the cost price on 100,000 of them. It is better for the public that the vendor should sell large quantities at a small profit, and in order to sell the large quantities it is necessary to sell through the jobbers, and in order to succeed in inducing a large number of jobbers to buy them the price to the consumer must be made uniform; and consequently this fixed price to the consumer is the necessary factor in the solution of the problem how to get adequate compensation for the patent rights bestowed. This problem is presented in a great variety of ways. In the Heaton-Peninsular Button-Fastener case it was solved by obtaining profits on the fasteners instead of on the machine. In the National Harrow case a fixed price to the consumer was the factor upon which a large part of the consideration was based, as in this case. It makes no difference in principle by what method the consideration for the grant is obtained, so long as the infringing acts are in derogation of the full enjoyment of that consideration or tend to abrogate it. In either case such infringing acts are a trespass upon the exclusive right under the patent monopoly, and for such trespass the patent statutes gives remedy by injunction, and it is that remedy we invoke in this case.

The Court of Appeals for the 2nd Circuit followed the Button-Fastener case in *Cortelyou v. Lowe*, 111 F. R., 1105. In the case of *Cortelyou v. Johnson*, 145 F. R., 943, the same Court of Appeals, that is, the Court of Appeals of the 2nd Circuit, said:

“The opinion of Judge Lurton in the Peninsular case covers the entire field of controversy and presents the arguments, and all the arguments, in sup-

port of the complainant's contention. It is a clear, comprehensive, and convincing exposition of the law as applicable to the facts as stated in the bill and admitted by the demurrer, and upon similar facts is as controlling upon us as if originally promulgated by this court."

The suggestion contained on page 13 of appellant's brief that the Court of Appeals intimated in this decision that but for the former case of *Cortelyou v. Lowe* the court might arrive at a different conclusion, is unjustified by the language of the decision. It is perfectly evident that the court in *Cortelyou v. Johnson* entirely agreed with the earlier decision, for no other significance could be given to the language we have just quoted, where it says that the former decision of Heaton-Peninsular Button-Fastener case is a "clear, comprehensive and convincing exposition of the law." If it is a convincing exposition of the law, how can it be that the court might entertain a different opinion, as intimated by counsel for appellant? The *Cortelyou v. Lowe* case was founded upon the Heaton-Peninsular Button case.

Of course, it is true that in the *Cortelyou v. Johnson* case the court very wisely suggested that there might be a proper limit for the doctrine, and that the doctrine should not be extended unjustly so as to create new monopolies invading legitimate occupation. The gist of the point, as we understand the decision, is this: The doctrine is all right when applied to the state of facts in the Heaton-Peninsular Button case, where the fastener had to be used with this particular machine, and could be used with no other machine; but it should not be applied to a case where the article was a common necessary of life, or in a particular line which might be used in other relations. For instance, a man would have no right because he owned a patent on a gasoline motor of a particular kind to place an embargo upon the sale of

gasoline for use with such motor, when as a matter of fact the same gasoline might be used with a variety of other motors, and therefore had no necessary relation to the motor in question. And that we think is a distinction which should be observed. In other words, there must be some direct connection between the article upon which the sale is monopolized and the patented device in question, or otherwise the monopoly is extending outside of the patent protection, which was never the intention of the statute. The fasteners, as we have before remarked, were made especially for that particular machine and the machine had to use the fasteners. The motor was a gasoline motor, but the gasoline could be used with other motors, and therefore there was no peculiar relation. We think the Court of Appeals of the 2nd Circuit discriminated wisely in *Cortelyou v. Johnson*, while it affirmed everything that was decided in the *Heaton-Peninsular* case.

A leading case is one in which this same defendant was involved,—*Victor Talking Machine Co. v. The Fair*, decided by the Circuit Court of Appeals for the 7th Circuit. In this case Judge Baker, delivering the opinion of the court, ruled on three propositions which are of interest in this case, to-wit:

1. That the complainant properly sued for infringement where a party violated the restrictions of a license fixing the price at which the article should be sold to the ultimate customer, and whether or not there was an implied contract arising from the acceptance of the conditions, made no difference.

2. That a license of this character was a proper license under the patent law, and that a jobber or dealer who sold the patented article at a less price than was provided within the limitations of the license entered the



field outside of the permission granted, and therefore was an infringer.

3. That it is axiomatic that the title of *The Fair* was no better than the title of the jobber, because unless the quality of innocence intervenes the title of the purchaser is no better than is the seller's, and the bill directly charged the seller with prior knowledge of the terms of the license.

We also ask attention to the large number of cases cited in the opinion of *Victor Talking Machine Co. v. The Fair* on the question of the suit being properly brought in the federal court, because the question of infringement was raised, even if a construction of a contract as well as the patent is one of the issues. A further point deserving of notice is that the license or notice placed on the machines in the *Victor Talking Machine* case was precisely similar to the present one, and, in fact, the present one was copied from the former, except in so far as the definite sum stated is involved. Counsel for complainant in considering this *Victor Talking Machine* case takes particular exception to the ruling of the court to the effect that the real offense was the tort, and the real remedy was injunction, even though there might have been an implied contract for the breach of which a suit at law might have been maintained. Counsel contend that the bill of complaint, while charging general infringement, also sets forth particular tort or grievance complained of, and that the plea refers to only the particular tort, and thereby clearly limits all allegations in the record to this particular branch of the case. This, we submit, is an entirely erroneous view of the law. It is perfectly true that by setting down the plea for argument counsel for complainant admitted the truth of the facts stated in the plea, and it is equally true that by filing such plea counsel for defendant admit-

ted all the other facts contained in the bill, including the general charge of infringement which might be based on various other acts of defendant which we have pointed out in the opening part of our brief. In other words, assuming that all the facts stated in the plea to the jurisdiction were true, and even assuming that those facts would not as a matter of law justify the charge of infringement (which, of course, we disputed), yet there are other charges in the bill of complaint which did justify the charge of infringement, and which defendant admitted as a matter of law by filing his plea. A plea, we submit, is like a demurrer as to all the other facts of the bill not referred to in the plea. In other words, if there are several grounds of complaint and the plea is only directed to one of them, and the other grounds would suffice to maintain the jurisdiction, even if the position of the plea was correct, the plea would be insufficient at law to defeat the action. That is the case here.

The further argument made by counsel for appellant against the decision of the Court of Appeals (in which the opinion was delivered by Judge Baker) in the Victor Talking Machine case, to the effect that this decision means that a party may part with the title to the patented invention and receive the full price demanded for it, and then by a label or notice require that the consumer must pay a different price, was a *reductio ad absurdum*, is misleading. We have before explained that when the patentee requires that the article be sold at a given price to the ultimate purchaser, he does this for the very purpose of insuring the full consideration for the patent privileges which he is granting. If he sold the device himself to the purchaser he would have a certain selling expense, say 25 or 50 cents, and if instead he sells to the jobber, who is to sell in turn to the retailer, he must provide an adequate sum between the price at which he sells

to the jobber and the ultimate price to the consumer for selling expense, so that in either case he is simply adding the selling expense to the cost and profit to be derived. He cannot get jobbers as a rule to sell for nothing, and he must make the price uniform to the consumer, or else jobbers cannot get their selling expense and profit, and hence will not sell, and consequently the patentee will not get his proper compensation. The mistake by counsel for appellant seems to be that he considers one article as giving the full remuneration to the patentee for his patent, while, of course, the patentee must look for his remuneration to the sum total of the articles sold, and he must regulate the prices so as to get the total amount of remuneration desired. As we before explained, if he only is to sell a few, he must get a larger percentage above the cost, but if he can by the modern business methods of distribution, secured by jobbers and retailers, sell a large number of devices, he can afford to take a smaller percentage of profit. Consequently it is necessary for the patentee to keep in mind these business conditions, and regulate prices in order to maintain these conditions, or else he will not get proper consideration for his patent. The Fair's conduct, as we have before shown, has seriously injured the market for these goods, and thus materially subtracted from the amount of consideration which otherwise would flow from the patent, and we are asking for an injunction to stop this destruction of complainant's business. The Fair persists in this improper line of conduct, and, indeed, has persisted for years, notwithstanding the decisions of the Court of Appeals against it in Victor Talking Machine case, and has absolutely no justification for its course, for it bought the goods with its eyes open as to the restriction under which it was secured.

A very recent case involving these questions is the de-

cision of the Court of Appeals for the Seventh Circuit in *The Fair v. Dover Mfg. Co.*, 166 Fed. Rep., 117. Similar views were expressed in *Fuller v. Berger*, 120 Fed. Rep., 274; *Rubber Tire Co. v. Milwaukee Rubber Works*, 154 Fed. Rep., 358; *Indiana Mfg. Co. v. J. I. Case Co.*, 154 Fed. Rep., 365; *Edison v. Kaufman*, 105 F. R., 690; *Edison v. Pike*, 116 F. R., 863; *Park v. U. W. D. A.*, 175 N. Y., 1; *Rupp v. Elliott*, 131 F. R., 730; *Tubular Rivet & Stud Co. v. O'Brien*, 93 F. R., 863, and in many other cases.

Respectfully submitted,

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